

“TRADE SECRETS” UNDER NEW ZEALAND LAW

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ABSTRACT

Under New Zealand civil law there is no specific legislation that governs the protection of “trade secrets”. Before the civil courts the protection of secret information is largely addressed by the judge-made breach of confidence action. Yet, the term trade secret is regularly used in commercial arrangements, business discourse and in legislation as a descriptor for certain types of secret information. Given this potential disjoint between legal doctrine and practice, this article asks whether the term trade secret carries any legal meaning and effect under New Zealand law. It is argued that the term trade secret has no settled doctrinal meaning under New Zealand law. The term trade secret is in fact moored in some ambiguity. Having explored the sources and causes of this ambiguity, this article concludes by considering some of the implications for statutory intervention and commercial practice.

I. INTRODUCTION

At some time, every business will possess certain commercial information that provides it with a significant competitive advantage in the marketplace. Such information could be a formula, a manufacturing process, technological know-how or marketing information, like a customer list. A business may be anxious to prevent such information getting into the public domain - or worse - into the hands of a competitor, so the business may try to keep the information secret. The term “trade secret” is often used to describe this commercial information. Legal systems around the world adopt an ex-post role in protecting a business’s trade secrets. For example, in the United States a business may obtain the remedy of an injunction or damages when it establishes another has misappropriated its trade secret.

Traditionally, the legal protection of trade secrets has been seen as the “forgotten step-daughter” to the most prominent intellectual property rights

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of copyright, patent and trade marks.¹ That is changing. In Europe, the EU Trade Secrets Directive seeks to harmonise the law governing the protection of trade secrets across Europe.² In the United States, a federal law on trade secrets has recently been introduced.³ At an international level, the Trans-Pacific Partnership,⁴ and negotiations concerning the Trans-Atlantic Trade and Investment Partnership have also put trade secret protection into focus.⁵

The increased attention given to trade secret protection is linked to policy goals about promoting innovation.⁶ Effective protection of trade secrets is also said to encourage collaborative research between traders.⁷ The evidence for these benefits, at least in Europe, may be equivocal.⁸ However, at a local level, evidence and anecdotal reports indicate that New Zealand firms do use and value secrecy as a way of preventing appropriation of innovation by others.⁹ Trade secrets, then, are important – and increasingly so. Yet, when one comes to assess the nature and efficacy of New Zealand’s law concerning the protection of trade secrets, one may be struck by the lack of explicit mention of the term trade secret in the “law books”. Under the civil law, there is no legislation governing the protection of trade secrets. This raises the question whether, despite its widespread use, the term trade secret has any legal meaning. This article seeks to answer this question by determining what, if anything, the term trade secret means under New Zealand law and how this affects the legal protection of secret commercial information.

I claim that under New Zealand law the term trade secret has no settled doctrinal meaning and is moored in some ambiguity. One of the reasons for

- 1 Sharon K. Sandeen “The Cinderella of Intellectual Property Law: Trade Secrets” in Peter K. Yu ed *Intellectual Property and Information Wealth: Issues and Practices in the Digital Age* (Vol 2) (Praeger Perspectives, Westport, Conn 2007) 399 at 399: “In many ways, trade secret law is the Cinderella of the intellectual property law field”.
- 2 Directive (EU) 2016/943 of the European Parliament and of the Council of 8 June 2016 on the Protection of Undisclosed Know-How and Business Information (Trade Secrets) Against Their Unlawful Acquisition, Use and Disclosure [EU Trade Secrets Directive].
- 3 Defend Trade Secrets Act of 2016 [DTSA].
- 4 See Trans-Pacific Partnership (signed 26 February 2016) Chapter 18, art 18.78.
- 5 SI Akhtar and VC Jones “Transatlantic Trade and Investment Partnership (TTIP) Negotiations” (Congressional Report R43387, 4 February 2014, Congressional Research Service) available from <fas.org> at 35.
- 6 For example, one of the justifications for the EU Trade Secrets Directive is that protecting trade secrets “allows creators and innovators to derive profit from their creation or innovation” which is “important for business competitiveness as well as for research and development, and innovation-related performance”, see EU Trade Secrets Directive, Recital 2. Similarly, the DTSA is championed as a mechanism to promote innovation. See Executive Office of the President “Statement of Administration Policy: S. 1890 – Defend Trade Secrets Act of 2016” (4 April 2016): “Effective protection of trade secrets promotes innovation...”.
- 7 EU Trade Secrets Directive, Recital 3.
- 8 See the comments of Tanya Aplin “A Critical Evaluation of the Proposed EU Trade Secrets Directive” [2014] 4 IPQ 257 at 259-260.
- 9 Basil Sharp and Owen Morgan *Review of the New Zealand Intellectual Property System* (Auckland Uniservices Ltd, Auckland, 22 April 2010) at 84: “[according to an online survey] ... confidentiality agreements are rated the highest in terms of protecting innovations. This finding is supported by the large majority of firms that would choose ‘secrecy’ as a means of protecting a new and non-obvious invention”.

this ambiguity is because the term trade secret enjoys something of a double life under New Zealand law. In commercial disputes, it is a mere label, rarely used by courts to describe a type of information that they will protect under the broad and flexible common law action for breach of confidence. Under this judge-made action it is unnecessary to determine whether information should be classed as a trade secret. Yet, in employment disputes the term trade secret is identified as a legal category that provides a division between information that an employer can prevent an employee from taking away with them and information that an employer cannot. The boundaries of this category in employment law are fuzzy and it is difficult to identify with precision what information will comprise a trade secret. Finally, in a raft of legislation the term trade secret is used, but is left undefined. The exception is the Crimes Act 1961, which provides a clear definition of a trade secret. However, this definition has not been considered or applied in any case law and has seemingly not directly influenced the civil law.

The main thrust of the article is positive, rather than normative in approach. That said, in the last section of the article, I begin to explore the normative implications of trade secrets not having a settled meaning under New Zealand law. Ambiguity can create uncertainty for public decision makers, businesses and their advisers, employers and employees and those seeking to document transactions and relationships that concern business secrets. From this perspective, a continuing lack of clarity around the meaning of trade secrets may be undesirable and statutory intervention may look like an attractive option. I explore some reasons why one may pause before travelling down this path. In the absence of a legislative response, I suggest that those drafting and advising businesses may be able to achieve greater clarity by avoiding using the term trade secret. Instead, to paraphrase the March Hare, when identifying secret business information - “you should say what you mean”.¹⁰ To reinforce this last point and to set the scene for further discussion, I begin in Section II by surveying the landscape of the use of the term trade secret in commercial practice.

II. TRADE SECRETS IN COMMERCIAL CONTEXT

A. Brief Survey of the Use of the Term Trade Secret in Commercial Practice

The dictionary provides a good starting point to ascertain the ordinary meaning of trade secret. The Oxford English Dictionary defines a trade secret as “a secret technique, process, substance, etc., which is used in a particular trade or occupation, or by a particular industry or business, and provides a competitive advantage”.¹¹ The Merriam-Webster Dictionary similarly refers

10 Lewis Carroll *Alice's Adventures in Wonderland* (Hoboken, NJ: Generic NL Freebook Publisher, 1865 (orig)) Chapter 7.

11 Oxford English Dictionary (online edition) <www.oed.com>.

to a trade secret as being “something (as a formula) which has economic value to a business because it is not generally known ...”.¹² These dictionary definitions are reflected in lay usage. It is not uncommon to read about businesses aggrieved about their trade secrets being stolen,¹³ or worried about “giving away trade secrets”.¹⁴

Lawyers suggest trade secrets should be seen as key “intellectual assets” of a firm.¹⁵ They recommend that businesses should take steps to protect their trade secrets from the risk of unauthorised use and disclosure when dealing with other parties. It is typically recommended that trade secrets be protected by contractual agreements that impose confidentiality obligations. These agreements can be stand-alone written agreements often referred to as non-disclosure or confidentiality agreements. Alternatively, confidentiality obligations could form part of a larger commercial agreement, such as a franchise, collaboration or distribution agreement.

In some non-disclosure agreements, the term “confidential information” is used as a description of secret information. For example:¹⁶

The Discloser agrees to disclose to the Recipient certain Confidential Information for the Purpose (as defined below) on the terms and conditions attached to this cover page.

In other contractual agreements, “trade secrets” may be used alongside “confidential” as a descriptor for certain information. For example, the judgment in *Dymocks Franchise Systems (NSW) Pty Ltd v Bigola Enterprises Ltd* records the terms of a franchise agreement containing the following clause [sic]:¹⁷

5G. Trade secrets

The Franchisee acknowledges that his knowledge of the operation of the Business, the DYMOCKS System, its products and services is derived from informal on disclosed to the Franchisee by the Franchisor pursuant to this Agreement, during the training course and in the Confidential Operations Manual, and that such information is proprietary, confidential and a *trade secret* of the Franchisor. (emphasis added)

12 Merriam-Webster Dictionary (online edition) <merriam-webster.com>.

13 See Myles Hume “Wall stolen to get trade secret” *The Press* (online edition, 24 September 2014) <www.stuff.co.nz>.

14 Eloise Gibson “NZ moss ‘tea bags’ clean US pools” *The New Zealand Herald* (online edition, Auckland, November 9, 2009).

15 See AJ Park “Trade secrets” <www.ajpark.com> and Create IP “Trade secrets” <www.createip.co.nz>.

16 “Non-Disclosure Agreement (1 Way)” Kiwinet Best Practice Library <www.kiwinet.org.nz>.

17 *Dymocks Franchise Systems (NSW) Pty Ltd v Bigola Enterprises Ltd* (1999) 8 TCLR 612 (HC) at 682 (“informal on” should presumably be “information”).

Trade secrets can also be the subject matter of what is called technology transfer agreements or arrangements. Technology transfer from one firm to another may be in the form of a licence or a sale. In such agreements, trade secrets may be identified as a subset of the term confidential information. For example:¹⁸

‘Confidential Information’ means all materials, *trade secrets*, or other information, including, without limitation, proprietary information and materials (whether or not patentable) regarding a Contract Party’s technology, products, business information, or objectives ... (emphasis added)

It is perhaps more common in technology transfer arrangements for the descriptor of “know-how” to be used.¹⁹ The concept of know-how can incorporate both tangible information and the communication of how to practically put the information to beneficial use.²⁰ In addition, in Europe the term know-how has been used and defined in the regulation of technology transfer agreements.²¹ The definition of know-how incorporates the idea of practical information that is “secret” being not generally known or easily accessible.

Another major area where the term trade secrets is used is in employment agreements. Every employee is required to have a written employment agreement,²² and it is common to have a clause addressing information disclosure. For example, the Ministry of Business, Innovation and Employment “Employment Agreement Builder” previously suggested the following clause,²³ which has been utilised by a number of organisations:²⁴

The Employee shall not, whether during the currency of this agreement or after its termination for whatever reason, use, disclose or distribute to any person or entity, otherwise than as necessary for the proper performance of their duties and

18 Example “Licensing Agreement Herpes Virus” in Noel Byrne and Amanda McBratney “Licensing Technology: Negotiating and Drafting Technology Transfer Agreements” (3rd ed, Jordan Publishing, Bristol, 2005) at 555.

19 See further John Hull “Trade Secret Licensing: The Art of the Possible” (2009) 4 J Intellect Prop Law Pract 203 at 206.

20 At 206 and see World Intellectual Property Office “Overview of Contractual Agreements for the Transfer of Technology” <www.wipo.int>.

21 Commission Regulation (EU) No 316/2014 of 21 March 2014 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to Categories of Technology Transfer Agreements (TTBER) Official Journal L93, 28.03.2014, art 1.

22 Employment Relations Act 2000, s 65. In practice many employment agreements may not be in writing. In *Warwick Henderson Gallery Ltd v Weston* [2006] 2 NZLR 145 (CA) the Court of Appeal held that an oral employment agreement is still enforceable.

23 Ministry of Business, Innovation and Employment “Employment Agreement Builder” <employment.govt.nz> (as at January 2016) (my emphasis). The Employment Agreement Builder has now been updated and this clause has been amended.

24 See for example, University of Canterbury “Individual Employment Agreement” <www.canterbury.ac.nz>.

responsibilities under this agreement, or as required by law, any confidential information, messages, data or *trade secrets* acquired by the Employee in the course of performing their services under this agreement ... (emphasis added)

In employment-related policy documents, trade secrets can be defined as part of the term “intellectual property.” For example, the Victoria University of Wellington Intellectual Property Policy defines intellectual property as including:²⁵

... any invention, discovery, or creation, which may be protected by way of trademark, patent, design, copyright, know-how, *trade secret*, permit, and plant variety right (whether registrable or unregistrable) and all applications, drafts and workings relating to these rights. (emphasis added)

Muddying matters employment jurisprudence is also replete with the use of the term “know-how”. However, in this context know-how is used in contra-distinction to the term trade secrets. It is said that know-how is not capable of being protected from employee misuse or disclosure after employment, whereas trade secrets are protected.²⁶

B. Confusion in Terminology

As the brief survey above reveals, the term trade secrets is used in a variety of contexts and in different ways. Sometimes it is used side-by-side with terms like know-how, data and confidential information. In some contexts, trade secrets is used interchangeably with confidential information and know-how. Yet, at other times, trade secrets is used as a subset of the term confidential information. In an employment context, information that is classed as know-how falls into a different category to information considered a trade secret. As John Hull has noted, the terminology employed in this area is “apt to be confusing”.²⁷

In his discussion of the meaning of words, Lewison discusses legal terms of art.²⁸ A legal term of art is one that has a technical meaning in law. Examples

25 Victoria University of Wellington “Intellectual Property Policy” (18 July 2013) <www.victoria.ac.nz>. Compare University of Canterbury “Intellectual Property Policy” (January 2016) <www.canterbury.ac.nz>.

26 See for example *Nedax Systems NZ Ltd v Waterford Security Ltd* [1994] 1 ERNZ 491 at 505: “To qualify as confidential information, the material in question must be information as opposed to skills, techniques, and know-how generally ...”.

27 Hull, above n 19, at 205.

28 K Lewison *The Interpretation of Contracts* (4th ed, Sweet & Maxwell, London, 2011) at 233-240.

of legal terms of art include: "licence",²⁹ "actual knowledge",³⁰ "liable as damages",³¹ and "injury".³² Lewison suggests that where a document contains a legal term of art it should, generally, be given its technical meaning in law.³³

Is a "trade secret" a legal term of art with a settled and precise legal meaning? If so, is such a meaning the same as the ordinary meaning of trade secret? If trade secret is not a legal term of art, should the term "trade secret" nevertheless be given its ordinary meaning?

In an attempt to clarify matters under New Zealand law it is necessary to first say something about the legal basis for protecting secret information. All signatories to the TRIPs agreement are required to have protection for "undisclosed information".³⁴ In the next section, I will demonstrate that New Zealand has met this obligation by following United Kingdom common law, which has not developed a settled definition of the term trade secret. By way of illustrative contrast I will also examine the law of the United States. In the United States a different approach is taken to protecting undisclosed information, and trade secret has a defined meaning.

III. THE BASIS OF PROTECTION OF SECRET COMMERCIAL INFORMATION

A. The United Kingdom Approach

Under United Kingdom law a complainant seeking redress for, and/or seeking to prevent further, misuse of secret information may utilise a number of legal mechanisms, such as contract, copyright or fiduciary law. Absent the availability of these mechanisms, judicial intervention is usually based on an equitable action for breach of confidence. Moreover, even where there is a contract, the framework of the equitable breach of confidence action is often referred to in interpreting and applying an express or implied contractual term.³⁵

29 *IDC Group Ltd v Clark* [1992] 2 EGLR 187 cited in Lewison, above n 28, at 234.

30 *Infiniteland Ltd v Artisan Contracting Ltd* [2005] EWCA Civ 758, (2006) 1 BCLC 632 cited in Lewison, above n 28, at 235.

31 *Bedfordshire Police Authority v Constable* [2009] EWCA Civ 64, [2009] 2 All ER 200 cited in Lewison, above n 28, at 235.

32 *Durham v BAI (Run Off) Ltd* [2010] EWCA Civ 1096, [2011] 1 All ER 605 cited in Lewison, above n 28, at 236.

33 Lewison, above n 28, at 233.

34 Agreement on Trade-Related Aspects of Intellectual Property Rights 1869 UNTS 299 (signed 15 April 1994, entered into force 1 January 1995), art 39.

35 See for example *Force India Formula One Team Limited v 1 Malaysia Racing Team Sdn Bhd* [2012] RPC 29 and *Vestergaard Frandsen AS Anor v Bestnet Europe Ltd* [2009] EWHC 657. In New Zealand, see *Harlow v Griffins Foods* HC Auckland CP 383/SD99, 15 November 2002.

The origin of an action for the equitable breach of confidence is usually traced back to *Prince Albert v Strange*.³⁶ In this case the court recognised an independent ground (from property) for relief for misuse of information based on a breach of trust and confidence.³⁷ *Prince Albert v Strange* was followed by *Morrison v Moat*,³⁸ where a court granted an injunction to protect secrets on the basis of a breach of confidence or breach of trust, by “fastening on the conscience” of the party misusing the secret information.³⁹

The idea of granting an injunction on the basis of breach of trust or confidence languished up until 1945 as courts appeared more comfortable relying on an implied contract as a ground of relief in cases involving the misuse of information.⁴⁰ However, following the Second World War, a series of cases reinforced the idea expressed in *Morrison v Moat* that a court could provide relief independently of contract or property in information by focusing on the unconscionability of a person abusing confidence.⁴¹ For example, in *Seager v Copydex*, Lord Denning declared the basis of relief for breach of confidence depended on a “broad principle of equity” that a person who “received information in confidence shall not take unfair advantage of it”.⁴²

In *Coco v A N Clark (Engineers) Ltd*, Megarry J drew on cases such as *Seager v Copydex* to sketch out an oft-cited framework for the breach of confidence action:⁴³

First, the information itself...must have the ‘necessary quality of confidence about it’. Secondly that information must have been imparted in circumstances importing an obligation of confidence. Thirdly, there must be an unauthorised use of that information to the detriment of the party communicating it.

In accordance with Megarry J’s framework, a claim for breach of confidence is limited to certain information. A plaintiff can fail at the first hurdle if the information allegedly misused does not have the necessary

36 *Prince Albert v Strange* (1849) 2 De G & Sm 652; (Knight Bruce V-C); 1 Mac & G 25 (Lord Cottenham LC). For an in-depth look at the early history see Tanya Frances Aplin and Francis Gurry *Gurry on Breach of Confidence* (2nd ed, Oxford University Press, Oxford, 2012) at [2.01]-[2.90].

37 *Prince Albert v Strange* (1849) 1 Mac & G 25 at 44 Lord Cottenham LC stated that the case did not solely rely on property existing in the unpublished etchings but also because “breach of trust, confidence or contract, would of itself entitle the Plaintiff to an injunction”.

38 *Morrison v Moat* (1851) 68 ER 492.

39 At 498.

40 See further Aplin and Gurry, above n 36, at [2.115]-[2.117] and William Van Caenegem *Trade Secrets and Intellectual Property: Breach of Confidence, Misappropriation and Unfair Competition* (Kluwer Law International, The Netherlands, 2014) at 77-78.

41 See *Saltman Engineering Co Ltd v Campbell Engineering Co Ltd* (1948) 65 RPC 203 at 211: “the obligation to respect confidence is not limited to cases the parties are in a contractual relationship”. See also *Duchess of Argyll v Duke of Argyll* (1964) [1967] Ch 302.

42 *Seager v Copydex Ltd* [1967] RPC 349 at 368.

43 *Coco v A N Clark (Engineers) Ltd* [1969] RPC 41 at 47.

quality of confidence about it. A key criterion for this quality is whether the information is in the public domain and accessible.⁴⁴ Public dissemination of secret information, for example, by way of publication of a patent specification, destroys confidentiality and hinders a successful action.⁴⁵

As well as accessibility, the nature of the information can affect the applicability of the breach of confidence action. To have a necessary quality of confidence, information does not need to be novel.⁴⁶ Rather courts have indicated that a key criterion for information to be confidential is that the information results from the application of some thought or skill “of the human brain”.⁴⁷ Accordingly, it is recognised that the quality of confidentiality can arise in information gained from the public domain, provided some skill and effort had gone into compiling it.⁴⁸ Most of the leading cases deal with secret information that has *commercial value*.⁴⁹ Nevertheless, the breach of confidence action is not restricted to information considered commercially valuable. United Kingdom courts have found that private personal information can have the requisite quality of confidentiality.⁵⁰ This reinforces the notion that the breach of confidence action is more orientated towards protecting commercial morality, good faith and conscience than the nature of the information itself.⁵¹ Indeed in recent years, in a number of cases involving private information, United Kingdom courts have let the principles of good faith and conscience relax the requirement of a confidential relationship.⁵² For example, in *Campbell v MGN Ltd*, Lord Nicholls observed that “the law imposes a ‘duty of confidence’ whenever a person receives information he knows or ought to know is fairly and reasonably to be regarded as confidential”.⁵³ Under the breach of confidence action then, the outer limits of what type of information can be protected does not depend on whether the information is a trade secret. Rather the applicability of breach of confidence is generally

44 *Saltman Engineering Co Ltd v Campbell Engineering Co Ltd* (1948) 65 RPC 203 at 215: “...it must not be something which is public property and public knowledge”.

45 See, for example, *Franchi v Franchi* [1967] RPC 149.

46 See Aplin and Gurry, above n 36, at [5.46]-[5.47].

47 See *Coco v AN Clark (Engineers) Ltd*, above n 43, at 47.

48 At 47.

49 See *Saltman Engineering Co Ltd v Campbell Engineering Co Ltd*, above n 44 (tools for the manufacture of leather punches); *Terrapin Ltd v Builders’ Supply Co (Hayes) Ltd* [1967] RPC 375 (portable buildings); *Franchi v Franchi*, above n 45 (process to manufacture tiles); *Seager v Copydex Ltd*, above n 42 (carpet grip); *Coco v AN Clark (Engineers) Ltd*, above n 43 (moped).

50 For example, *Duchess of Argyll v Duke of Argyll*, above n 41 (marital confidences).

51 Jennifer E Stuckey “The Equitable Action for Breach of Confidence: Is Information Ever Property?” (1981) 9 Sydney Law Review 401 at 405-409. See also *Vestergaard Frandsen A/S v Bestnet Europe Limited* [2013] RPC 33 (UKSC) at [23]: “After all, an action in breach of confidence is based ultimately on conscience”.

52 Notably, *Campbell v MGN Ltd* [2004] 2 AC 457 (HL) at [14] (per Lord Nicholls of Birkenhead): “This cause of action has now firmly shaken off the limiting constraint of the need for an initial confidential relationship”. See also *Douglas v Hello! Ltd (No. 3)* [2006] QB 125 (CA) at [83].

53 *Campbell v MGN Ltd* [2004] 2 AC 457 (HL) at [14].

constrained by the requirement of inaccessibility,⁵⁴ that the information not be too trivial,⁵⁵ and by the requirement that the information that is alleged to be confidential is not too vague or general.⁵⁶ There is an important further exception to these factors, though. The courts have adopted a so-called “spring-board doctrine”, where confidential information is disclosed and subsequently becomes publicly accessible. In such a situation, a court may not allow the recipient to use the information as a head-start or spring-board (or require the recipient to recompense the discloser for such a head-start).⁵⁷

B. The Approach in the United States

In contrast to the judge-made law approach in the United Kingdom, in the United States there is such a thing as “trade secret law”. This trade secret law originated from the same foundations as the law in the United Kingdom.⁵⁸ However, the law moved away from a unitary approach of protecting all sorts of information, to a more specific focus on technical commercial information.⁵⁹ Legal protection of commercial secrets was originally common law and state based, and as such the law had the potential to develop divergently. An influential restatement of the law helped facilitate a shared approach across different states.⁶⁰ However, the major step towards harmonisation did not come until 1979, when the Uniform Trade Secrets Act (the UTSA) was drafted.⁶¹

The UTSA was designed to create uniformity in trade secret law, and to exclusively govern trade secret misappropriation claims.⁶² Today, a majority of states have codified the common law by enacting state versions of the UTSA.⁶³ As Charles Graves suggests, the UTSA essentially became, and remains, “official trade secret law” in the United States.⁶⁴

54 *Saltman Engineering Co Ltd v Campbell Engineering Co Ltd* (1948) 65 RPC 203 at 215: “[not] something which is public property and public knowledge”.

55 *Coco v Clark* [1969] RPC 41 at 48.

56 See for example, *De Maudsley v Palumbo* [1996] FSR 447 at 456 (idea for a night club). It was held at 459 that features of the plaintiff’s idea were too vague to be confidential information.

57 See *Terrapin Ltd v Builders’ Supply Co (Hayes) Ltd*, above n 49, at 391.

58 See for example, *Peabody v. Norfolk* 98 Mass 452 at 459 (Sup Court of Mass 1868) referring to *Morrison v Moat* (1851) 68 ER 492.

59 Van Caenegem, above n 40, at 99-100.

60 Restatement (First) of Torts 1937.

61 Uniform Trade Secrets Act 1979 (with 1985 amendments).

62 That is, to foreclose non-statutory trade secret misappropriation claims. See Uniform Trade Secrets Act 1979 (with 1985 amendments): Prefatory Note: “The contribution of the Uniform Act is substitution of unitary definitions of trade secret and trade secret misappropriation, and a single statute of limitations for the various property, quasi-contractual, and violation of fiduciary relationship theories of noncontractual liability utilized at common law”.

63 As at June 2016, only Massachusetts and New York have not enacted a state version of the UTSA. However, both states have introduced draft legislation in 2016, see Uniform Law Commission “Trade Secrets Act” <www.uniformlaws.org>.

64 Charles Tait Graves “Trade Secrecy and Common Law Confidentiality: The Problem of Multiple Regimes” in Rochelle C. Dreyfuss and Katherine J. Strandburg (eds) *The Law and Theory of Trade Secrecy* (Edward Elgar, Cheltenham, UK, 2011) 77 at 81.

As intimated in the introduction, the protection of trade secrets in the United States revolves around the idea of trade secret misappropriation. Whether information is a trade secret is the initial gatekeeper for a defendant's liability. A complainant who is unable to establish that the information allegedly misappropriated is a trade secret will be denied relief.⁶⁵

Under the UTSA, "trade secret" is defined to mean:⁶⁶

... information, including a formula, pattern, compilation, program, device, method, technique, or process, that:

- i. derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and
- ii. is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

In addition to the UTSA, the America Law Institute has published a third Restatement of Unfair Competition that addresses trade secrets.⁶⁷ The Restatement defines trade secret as "any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others".⁶⁸ This definition is designed to be consistent with the definition in the UTSA.⁶⁹

Although there may be specific and minor differences in state enactments of the UTSA, the common features of the definition of trade secret under United States law can be shortly summarised. First, the information must not be generally known or readily ascertainable. This requirement of secrecy, though, does not preclude circulation among a limited group of people.⁷⁰ Second, and relatedly, the information must be the subject of some measures to ensure it stays secret. Third, the information must derive independent economic value from the fact that it is not known.

The definition of trade secret in the UTSA also explicitly refers to things like formulas, methods, techniques and processes. In this way, the definition continues to orientate trade secret protection towards technical information.

65 For an example see *Buffets, Inc v Klinke* 73 F.3d 965 (9th Cir 1996). The plaintiff failed to establish recipes and job training manuals were a trade secret under the Washington version of the UTSA even though they had been obtained illegally. But note that a plaintiff could potentially rely on other common law doctrines in some circumstances, for analysis see Robert C Denicola "The Restatements, the Uniform Act and the Status of American Trade Secret Law" in Dreyfuss and Strandburg (eds), above n 64, at 34-44.

66 Uniform Trade Secrets Act 1979 (with 1985 amendments) § 1(4).

67 Restatement (Third) of Unfair Competition (1995) § 39-§ 45.

68 At § 39.

69 At § 39 (comment).

70 Robert Bone "A New Look at Trade Secrets Law: Doctrine in Search of Justification" 86 Calif Law Rev 241 at 248-249.

However, as Robert Bone has identified, courts in the United States have protected information such as customer lists, business methods, pricing information and marketing research data.⁷¹

The recent Defend Trade Secrets Act (DTSA) amends the Economic Espionage Act (the EEA) (which deals with criminal actions) to enable trade secret owners to bring a private civil action for trade secret misappropriation where a dispute crosses state lines. The definition of trade secret in the EEA is wider than the UTSA definition and makes explicit that trade secrets can include “all forms of financial, business, scientific, technical, economic or engineering information”.⁷² However, the core common features of the definition of trade secret remain. To be a trade secret information must be subject to measures to keep it secret and it must derive economic value from being secret.⁷³

Under United States law, then, trade secret is a legal term of art. At a state level, the term trade secret has a largely uniform statutory definition. At a federal level, the term trade secret is also statutorily defined, and this definition is substantively similar to the definition in state enactments of the UTSA.

C. New Zealand Law

Unlike the United States, under New Zealand law there is no statutory protection at civil law for “trade secrets”. Protection against the unauthorised use of information follows the approach in the United Kingdom. As such, in most cases in the absence of a contract, plaintiffs must bring an action for breach of confidence. In *Hunt v A*, the Court of Appeal portrayed the breach of confidence action as being based on a “broad principle of good faith”.⁷⁴ In a subsequent case, the Court of Appeal described how a court “fastens” an obligation of confidence on the party receiving the information and enforces it against that party if the circumstances warrant it.⁷⁵ The usual remedy sought by plaintiffs is an injunction to restrain further breaches and damages or an account of profits.⁷⁶

Doctrinally, whether there is an express contract or not, New Zealand courts have endorsed the elements of the breach of confidence action laid down by Megarry J in *Coco v A N Clark (Engineers) Ltd* in assessing whether there has been a breach of confidence.⁷⁷ New Zealand courts have not expressly followed United Kingdom courts, though, in extending the breach of confidence action to remove the requirement of a confidential

71 At 248.

72 18 USC § 1839 (3).

73 18 USC § 1839 (3).

74 *Hunt v A* [2007] NZCA 332 at [64].

75 *Skids Programme Management Ltd v McNeill* [2013] 1 NZLR 1 (CA) at [78].

76 See *AB Consolidated Ltd v Europe Strength Co Pty Ltd* [1978] 2 NZLR 515 (CA) for a discussion of principles that relate to the granting of injunctions for a breach of confidence.

77 *Skids Programme Management Ltd v McNeill*, above n 75, at [76] and *Harlow v Griffins Foods* HC Auckland CP 383/SD99, 15 November 2002 at [13].

relationship.⁷⁸ In cases involving the misuse of secret and private information where there is no relationship between defendant and plaintiff, New Zealand courts have recognised a tort of privacy.⁷⁹ This tort gives a plaintiff redress where facts exist "in respect of which there is a reasonable expectation of privacy; and publicity given to those private facts ... would be considered highly offensive to an objective reasonable person".⁸⁰

New Zealand law's divergence in terms of the tort of privacy aside, as with the law of the United Kingdom, the breach of confidence action is limited by whether the information has the necessary quality of confidence. New Zealand courts have explained that this requirement does not limit the availability of the breach of confidence action to "trade secrets".⁸¹ Similarly to the position under the United Kingdom law, New Zealand case law has confirmed that inaccessibility of information,⁸² and a requirement of "thought and work",⁸³ are key preconditions to whether information has the necessary quality of confidence.

Certain elements concerning the nature of the information have been used to assist in determining whether the threshold of confidentiality is met. *Skids Programme Management Ltd v McNeill* is illustrative.⁸⁴ One of the issues in the case was whether policy documents had the necessary quality of confidence.⁸⁵ The Court of Appeal, reversing the finding at first instance,⁸⁶ found the policy documents had such a quality.⁸⁷ The Court observed that if information was "unique or a trade secret" this could be an indication that the information was confidential.⁸⁸ The Court of Appeal did not expand on what they meant by trade secret, but I presume the Court had in mind technical information akin to the definition of trade secret under the UTSA. The Court then identified commercial value, the amount of skill and labour that would be required to create the information, the subjective view of the owner of the information, and steps taken to keep the information secret as indicators of the necessary quality of confidence.⁸⁹

It is evident that the indicators identified by the Court of Appeal in *Skids Programme Management Ltd v McNeill* share similarities with the definition

78 But see *R v X* [2010] 2 NZLR 181 (CA) at [44]-[45].

79 *Hosking v Runting* [2005] 1 NZLR 1 (CA).

80 At [117].

81 *Skids Programme Management Ltd v McNeill*, above n 75, at [79]: "It is not necessary for there to have been the misuse of a trade secret for the information to have the requisite quality of confidence".

82 *AB Consolidated Ltd v Europe Strength Co Pty Ltd*, above n 76 at 521.

83 *Skids Programme Management Ltd v McNeill*, above n 75, at [80].

84 *Skids Programme Management Ltd v McNeill*, above n 75, at [80].

85 At issue was also whether enrolment information was confidential. The High Court at first instance (*Skids Programme Management Ltd v McNeill*, above n 75, HC Auckland CIV-2010-404-1696, 20 April 2011) and the Court of Appeal found this information did not have the necessary quality of confidence.

86 At [125].

87 *Skids Programme Management Ltd v McNeill*, above n 75, at [84].

88 At [80].

89 At [80].

of a trade secret under the UTSA. However, the elements identified by the Court do not appear to be necessary preconditions for confidentiality. For example, it does not appear necessary for information to possess an independent economic value to be protected, as is the case under the UTSA.⁹⁰ Nor is it necessary for a plaintiff to positively establish that it has taken reasonable precautions to ensure the information is secret (although, plainly, if the information is in the public domain it cannot be protected). Nor is it necessary that the information be of a technical nature. Courts have held that information such as secret processes for manufacturing,⁹¹ personal information,⁹² and customer lists are potentially protectable.⁹³ Indeed, it has been said that what is protectable under the breach of confidence action is not susceptible to an abstract definition.⁹⁴

In summary, under the civil breach of confidence action in New Zealand law, “trade secret” is not a legal term of art. “Trade secrets” are but “one species” of the genus of confidential information.⁹⁵ As such, it is unlikely that a definition of trade secret will be “central” to breach of confidence proceedings.⁹⁶ It is not surprising that some commentary has identified that “the term ‘trade secret’ in law is largely a misnomer”.⁹⁷

The major exception to the general trend of New Zealand jurisprudence before the civil courts is the approach of Hammond J. In a series of cases he has identified the imprecision around the term trade secret and has sought to advance his own definition.⁹⁸ A clear example of this can be found in *Dymocks Franchise Systems (NSW) Pty Ltd v Bilgola Enterprises Ltd*.⁹⁹ Hammond J was considering the contractual clause outlined above in section II, which stipulated that certain information was “proprietary, confidential and a trade secret”. Hammond J said:¹⁰⁰

The term “trade secret” has been confusingly used since that species of commercial information was first protected by equity Judges in the 18th century. A “trade secret” means information which includes, but is not limited to, such things as a formula; pattern; compilation; programme method; technique or process; or information somehow embodied in

90 Aplin and Gurry, above n 36 at [5.51]-[5.54].

91 *AB Consolidated Ltd v Europe Strength Food Co Pty Ltd* [1978], above n 76.

92 *A v Hunt* [2006] NZAR 577 (HC) but overturned on appeal, *Hunt v A*, above n 74.

93 *Fisken & Associates Ltd v Frew* HC Auckland CP33/01, 12 July 2001.

94 *Peninsular Real Estate v Harris* [1992] 2 NZLR 216 (HC) at 219.

95 Caenegem, above n 40, at 66.

96 Ian Eagles, Michael Taggart, Grant Liddell *Freedom of Information in New Zealand* (Oxford University Press, Auckland, 1992) at 297.

97 *Laws of New Zealand: Confidential Information* (online edition) at [12].

98 See *Dymocks Franchise Systems (NSW) Pty Ltd v Bilgola Enterprises Ltd* (1999) 8 TCLR 61 (HC), *Calvon Robinson Industries Ltd v Kay Play Ltd* (1995) 6 TCLR 722 (HC) at 727-728, *Laser Alignment v Scholz* [1993] 2 ERNZ 250 at 260.

99 *Dymocks Franchise Systems (NSW) Pty Ltd v Bilgola Enterprises Ltd* (1999) 8 TCLR 61 (HC).

100 At [225].

a product, device, or mechanism which (i) is, or may be used in a trade or business; (ii) is not generally known in that trade or business; (iii) has economic value from not being generally known; and, (iv) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

Hammond J's definition can be traced to his involvement in the Alberta Law Reform Working Party Report on Trade Secrets.¹⁰¹ Hammond J's definition of a trade secret has not been explicitly picked up or cited in other New Zealand case law concerning breach of confidence. However, Hammond J's ideas have been influential under the Crimes Act 1961. Before examining the use of trade secrets in statute law, I will look at the differing approach of employment law adjudicators to the term trade secret.

IV. THE DIFFERING APPROACH IN EMPLOYMENT CASES

A. The Employment Context

A significant number of disputes concerning the misuse of secret commercial information arise in cases involving employees or ex-employees. Cases where it is alleged that an employee or ex-employee has misused secret commercial information are usually heard in the Employment Relations Authority.¹⁰² It is not usual for the claim to be framed as one of breach of confidence following the *Coco v A N Clark Engineers Ltd* formulation.¹⁰³ Typically, adjudicators do not focus attention on whether information has the necessary "quality of confidence". Instead, adjudicators seek to assess the permissibility of an employee's actions by differentiating between categories of information.

To understand this differentiation, it is important to appreciate that employment is treated as "a special category within the law of confidentiality".¹⁰⁴ The "specialness" of employment is due to a strong and longstanding judicial desire to balance two competing interests. First, there is a recognition that there is a need to protect the "vulnerability of employer's proprietary interest in its business", from an employee's opportunism.¹⁰⁵ Second, there is a well-

101 Institute of Law Research and Reform "Alberta and a Federal Provisional Working Party: Trade Secrets" (Report No. 46, July 1986).

102 Section 161 of the Employment Relations Act 2000 confers on the Employment Relations Authority exclusive jurisdiction to make determinations about employment relationship problems generally. For authority on this point and a discussion of the "boundary issues" in employment see *BDM Grange v Parker* [2006] 1 NZLR 353 at [86]-[87]. Compare *Foot Science International Ltd v Xu* [2014] NZHC 645 where the High Court heard a claim for breach of an ex-employee's contract (for misuse of confidential information).

103 But compare *Foot Science International Ltd v Xu* [2014] NZHC 645 at [35].

104 Aplin and Gurry, above n 36, at [10.01].

105 See *Walden v Barrance* [1996] 2 ERNZ 598 at 615.

entrenched policy concern that employees should not be prevented from earning a living.¹⁰⁶

During employment the protection of an employer's interests is achieved by a mix of express and implied contractual obligations that mirror and supplement each other. The contractual duty of fidelity and good faith compels an employee's faithfulness to his or her employer.¹⁰⁷ This duty may be an express obligation of the employment agreement or it may be implied. The duty of fidelity prevents an employee engaging in conduct that is likely to damage the employer's business or that is likely to undermine the relationship of trust and confidence.¹⁰⁸ Employees also owe a duty of confidentiality to their employers. During employment the duty of fidelity essentially subsumes an employee's duty of confidentiality.¹⁰⁹ Thus, an employee who uses, discloses, copies or removes information during employment in a way that damages the employer will be in breach of his or her duty of fidelity.¹¹⁰

After employment, the nature of an employee's obligations change. Unlike the duty of fidelity,¹¹¹ a duty of confidentiality may continue after employment. It may be an express term of an employment agreement as outlined above, or it may be implied.¹¹² However, the courts may use the restraint of trade doctrine to scrutinise an express confidentiality obligation to ensure that the clause does not go beyond what is reasonable to protect the interests of the employer and thereby affect an employee's future working prospects.¹¹³ Employers may indirectly seek to buttress protection for their commercial information post-employment by requiring employees to agree to a non-compete clause. The restraint of trade doctrine also affects how courts interpret such non-compete clauses. A non-compete clause is considered unenforceable unless it "can be justified as reasonably necessary to protect proprietary interests of the former employer and in the public interest".¹¹⁴

In trying to weigh the policy concerns of protecting an employer's interests and safeguarding an employee's freedom to work, there is a tendency for adjudicators to utilise the concept of trade secrets to achieve balance in two ways. First, in construing the scope of a post-employment obligation

106 At 615 and *Nedax Systems NZ Ltd v Waterford Security Ltd* [1994] 1 ERNZ 491 at 495-496. See also *Faccenda Chicken v Fowler* [1987] Ch 117 at 128.

107 For a discussion, see Rob Batty "Examining the Incidence of Fiduciary Duties in Employment" (2012) 18 *Canta LR* 187 at 191-193.

108 See *Tisco Ltd v Communication & Energy Workers Union* [1993] 2 ERNZ 779 (CA) at 782 and *Walden v Barrance* [1996] 2 ERNZ 598 at 616.

109 *Faccenda Chicken v Fowler* [1987] Ch 117 at 135 and see Mark Freedland *The Personal Employment Contract* (Oxford University Press, Oxford, 2006) at 173-174.

110 See as an early example *Robb v Green* [1895] 2 QB 315.

111 *Schilling v Kidd Garrett* [1977] 1 NZLR 243 (CA) at 258.

112 Gordon Anderson and John Hughes *Employment Law in New Zealand* (LexisNexis NZ Limited, Wellington, 2014) at 244: "when the agreement is silent the courts will always imply a term prohibiting disclosure of confidential information obtained by an employee in the course of, and as a result of, his or her employment".

113 See generally Aplin and Gurry, above n 36, at [12.97]-[12.101].

114 *Gallagher Group Ltd v Walley* [1999] 1 ERNZ 490 at [20] citing *Mason v Provident Clothing & Supply Co Ltd* [1913] AC 724 at 733.

of confidentiality (whether express or implied), adjudicators may distinguish between trade secrets and other confidential information.¹¹⁵ Second, when considering the enforceability of a non-compete clause, usually only trade secrets will be identified as a legitimate form of proprietary interest that justifies an adjudicator upholding the contractual clause.¹¹⁶ The meaning of a trade secret therefore becomes a key focus point post-employment.

B. What is a Trade Secret? The Approach in *Faccenda Chicken*

The well-known case of *Faccenda Chicken v Fowler* casts a long and influential shadow over employment jurisprudence that has considered the meaning of the term trade secret.¹¹⁷ The first defendant and main protagonist in the case was Mr Barry Fowler. Mr Fowler had been the plaintiff's sales manager. He resigned and started a similar business in the same area. At issue was certain sales and price information that Mr Fowler was alleged to have taken from the plaintiff.¹¹⁸ The plaintiff claimed that Mr Fowler's actions amounted to an "abuse of confidential information".¹¹⁹ Mr Fowler did not have an express term in his employment contract addressing the unauthorised use of confidential information and did not have a non-compete clause. Therefore, the case turned on the scope of Mr Fowler's implied duty of confidentiality.

At first instance, Goulding J considered that in cases of "master and servant", information could be divided into three categories.¹²⁰ In the first category, Goulding J placed "information which, because of its trivial character or its easy accessibility from public sources of information, cannot be regarded by reasonable persons or by the law as confidential at all".¹²¹ The use of this information by an ex-employee could not be objected to by the employer. In the second category Goulding J placed information that the employee is told is confidential or which is intrinsically obviously confidential,

115 See for example, *Ravensdown Corp Ltd v Groves* [1998] 3 ERNZ 947 at 957: "Information in the nature of trade secrets will be protected even after termination of the employment where there is no express covenant preventing its use. Mere confidential information will be protected during the employment but not usually thereafter unless there are express covenants ...".

116 In the leading House of Lords judgment of *Herbert Morris v Saxelby* (1916) 1 AC 688 (HL) at 702 Lord Atkinson said an employer "is undoubtedly entitled to have his interest in his trade secrets protected, such as secret processes of manufacture which may have vast value". See also *H & R Block Ltd v Sanott* [1976] 1 NZLR 213 (SC) at 218.

117 Although *Faccenda Chicken v Fowler* has been addressed in the academic literature many times before, it remains impossible to ignore. For more detailed treatment see Aplin and Gurry, above n 36, at [12.166-12.178] and Andrew Stewart "Confidentiality and the Employment Relationship" (1988) 1 AJLL 1.

118 This information comprised information about the location and requirements of customers, the prices charged to individual customers, the most convenient routes taken to reach individual customers, and the days of the week when deliveries were made to customers.

119 *Faccenda Chicken v Fowler* [1985] FSR 105 at 114.

120 At 114.

121 At 114.

but when learned by the employee becomes inseparable from the employee's own skill and knowledge.¹²² In Goulding J's view, during employment, if this information is misused by the employee he or she will breach their duty of fidelity. However, after employment this information can only be protected by an express clause or a non-compete clause. In the third category, Goulding J put "specific trade secrets" that even if retained in the employee's head could not be used after employment.¹²³

Applying these categories to Mr Fowler's situation Goulding J found the sales information fell in the second category and in the absence of an express clause, the plaintiff's claim was dismissed.¹²⁴ That is, the information relied upon by the plaintiff fell outside of the implied duty of confidentiality.

On appeal, the Court of Appeal agreed that the plaintiff's claim should be dismissed.¹²⁵ But in delivering the main judgment, Neil LJ, made a number of important and influential observations. Neil LJ observed that an implied duty of confidentiality will be owed by an employee after their employment has ended, but this implied duty is "more restricted in its scope" than an employee's duty of fidelity that subsists during employment.¹²⁶ Neil LJ then observed:¹²⁷

It is clear that the obligation not to use or disclose information may cover secret processes of manufacture such as chemical formulae, or designs or special methods of construction, and other information which is of sufficiently high degree of confidentiality as to amount to a trade secret. The obligation does not extend, however, to cover all information which is given to or acquired by the employee while in his employment, and in particular may not cover information which is only "confidential" in the sense that an unauthorised disclosure of such information to a third party while the employment subsisted would be a clear breach of the duty of good faith.

To illustrate the distinction between trade secrets and mere confidential information, Neil LJ drew on the earlier case of *Printers & Finishers Ltd v Holloway*.¹²⁸ In that case, Cross J was considering written printing instructions given to the employee Holloway to use during his employment. Cross J found that the instructions were not trade secrets.¹²⁹ Holloway could not disclose the instructions during employment, nor could he take a copy of the instructions

122 At 115.

123 At 115.

124 At 116.

125 *Faccenda Chicken v Fowler* [1987] 1 Ch 117 (CA).

126 At 136.

127 At 136 (citations omitted).

128 *Printers & Finishers Ltd v Holloway* [1965] RPC 239.

129 At 253.

away with him after employment, but to the extent "he carried them in his head" after employment, he was entitled to use the information.¹³⁰

Neil LJ then suggested a multi-factorial approach to determining whether information fell within the post-employment implied duty of confidentiality. One factor identified was the nature of the information itself. Neil LJ also identified the nature of employment, whether the employer impressed on the employee the confidentiality of the information and the ability to isolate the information from other information the employee is entitled to use or disclose as relevant factors.¹³¹

Having postulated the relevant legal principles, Neil LJ recorded his disagreement with Gouling J's second category of information. For Neil LJ, an employer could only use a non-compete clause to protect a trade secret or its equivalent.¹³² Neil LJ therefore found that the meaning of trade secret was the same in both the context of the implied duty of confidentiality and in the context of the legitimate interest a non-compete clause could protect.

Neil LJ's judgment in *Faccenda Chicken* arguably establishes a gradient or spectrum of information from information that is merely confidential and not protectable, to information that is a trade secret or is equivalent to a trade secret, which is.¹³³ The immediate issue is such a distinction leaves future adjudicators a difficult task of deciding what information qualifies as a trade secret. Of course, Neil LJ proposed a number of factors that an adjudicator can look at. These factors are highly contextual. Indeed, Neil LJ recognised that it would be impossible to enumerate a list of materials that would qualify as trade secrets or their equivalent.¹³⁴ The defining criterion is the unhelpful notion of whether the information is "highly confidential".¹³⁵ Neil LJ certainly had in mind "secret processes of manufacture",¹³⁶ but also recognised that in "certain circumstances" prices, such as in a tender document, would qualify.¹³⁷

In the subsequent case of *Lansing Linde v Kerr* Staughton LJ recognised this "problem of definition" when assessing the enforceability of a non-compete clause.¹³⁸ Adopting in part a submission of counsel, Staughton LJ proposed that a trade secret is information used in a business, which is subject to efforts to limit its dissemination, and that if disclosed to a competitor would be liable

130 At 253.

131 *Faccenda Chicken v Fowler* [1987] 1 Ch 117 (CA) at 136-138.

132 At 137, or in appropriate circumstances "to prevent some personal influence over customers being abused in order to entice them away".

133 Aplin and Gurry, above n 36, at [12.173]. Compare Stewart, above n 117, at 6-7.

134 *Faccenda Chicken v Fowler* [1986] 1 Ch 117 at 138.

135 At 137: "In our judgment the information will only be protected if it can properly be classed as a trade secret or as material which, while not properly to be described as a trade secret, is in all the circumstances of such a highly confidential nature as to require the same protection as a trade secret eo nomine".

136 At 138.

137 At 140.

138 *Lansing Linde Ltd v Kerr* (1991) 1 WLR 251 at 260.

to cause significant harm.¹³⁹ On this view, Staughton LJ thought that the term trade secret could encompass not only information like secret formulae but also “the names of customers and the goods which they buy”.¹⁴⁰ Butler-Sloss LJ also observed:¹⁴¹

‘Trade secrets’ has, in my view, to be interpreted in the wider context of highly confidential information of a non-technical or non-scientific nature, which may come within the ambit of information the employer is entitled to have protected, albeit for a limited period.

Lansing Linde v Kerr may provide the basis for a tighter (yet wider) definition of trade secret than that expressed in *Faccenda Chicken*. However, as the authors of *Gurry on Breach of Confidence* assert, subsequent courts have still found it difficult to draw a line between trade secrets and other confidential information.¹⁴²

C. Approach in New Zealand

Faccenda Chicken is influential in New Zealand employment jurisprudence and is regularly cited in cases concerning the misuse of information by employees.¹⁴³ Recently, in *Air New Zealand v Kerr*, the Employment Court approved the categories of information identified by Goulding J in *Faccenda Chicken* as the appropriate starting point, a view shared by a leading text.¹⁴⁴ There is also widespread acceptance that general skills, techniques and knowledge learned by an employee cannot be protected or restrained post-employment.¹⁴⁵ However, beyond this proposition, New Zealand employment adjudicators have found it hard to apply *Faccenda Chicken* to draw a line between what is protectable information “belonging” to an employer and un-protectable knowledge “belonging” to an employee.¹⁴⁶

139 At 260.

140 At 260.

141 At 270.

142 See Aplin and Gurry, above n 36, at [12.175].

143 Cases include *AM Satterthwaite & Co Ltd v Gay* (1987) 1 NZELC 95, 356; *Korbond Industries v Jenkins* [1992] 1 ERNZ 1141; *Guardall Alarms NZ Ltd v Paul* [1994] 1 ERNZ 259; *Force Four NZ Ltd Curtling* [1994] 1 ERNZ 542; *Ravensdown Corp Ltd v Groves* [1998] 3 ERNZ 947; *Bradford Trust Limited v Roebeck* (2006) 4 NZELR 635; *SGS NZ Ltd v Nortel (1998) Ltd*, HC Whangarei CIV-2006-488-384, 20 December 2007.

144 *Air New Zealand Ltd v Kerr* [2013] ERNZ 581 at [39]. Anderson and Hughes, above n 112, at 246.

145 *Vulcan Steel Ltd v McDermott* (2011) 8 NZELR 576 at [27], *Air New Zealand Ltd v Kerr* [2013] ERNZ 581 at [34] and *Transpacific Industries v Harris* [2013] ERNZ 267 at [29] and [42].

146 Two cases prior to *Faccenda Chicken* sought to draw the line between information that could be learned in the trade generally, and information that is learned specifically in the employ of the particular employer, see *Westminster Chemical NZ Ltd v McKinley and Tasman Machinery & Services Ltd* (1973) 1 NZLR 659 (SC) at 665 and *New Zealand Needle Manufacturers Ltd v Taylor* (1975) 2 NZLR 33 (SC) at 44.

This has raised the related issue of whether information falling in Goulding J's second category (that is, confidential information that may form part of an employee's knowledge) can be protected by a non-compete clause or whether only trade secrets or their equivalent can be protected by a non-compete clause.¹⁴⁷

At the heart of the difficulty is ongoing uncertainty as to what the Court of Appeal in *Faccenda Chicken* meant by "trade secret". Was the Court of Appeal indicating that information sought to be protected post-employment simply had to be confidential information?¹⁴⁸ That is, information that has the quality of confidence in line with the *Coco v AN Clark* framework. If this is correct, an employee's implied obligation of confidentiality would likely capture all information that had the necessary quality of confidence other than an employee's general learned skills, techniques and knowledge. It would also mean that the enforcement of a non-compete clause would be justified whenever an employer could identify information that would be considered confidential during employment. Or was the Court of Appeal in *Faccenda Chicken* indicating that an employer had to convince a court that for information to be protected post-employment the identified information had to be akin to a secret technical process? This interpretation would mean information that had the necessary quality of confidence, but was not "highly confidential", would only be protected during employment, but not thereafter.¹⁴⁹ It would also mean that the enforcement of a non-compete clause would be limited by the requirement that information reach a "higher level of confidentiality".

The general thrust of New Zealand employment law jurisprudence appears to have taken a broad view of the scope of the term trade secret. A wide range of information has been held to fall within an employee's implied duty of confidentiality post-employment. This information has included tender prices and budget forecasts,¹⁵⁰ profit margins and other financial information of the employer concerning client contracts,¹⁵¹ information about an employer's "products, prices ... customers, its business dealings, transactions and affairs, including future projects and budgets",¹⁵² pricing information, business opportunities, tender information and information relating to health and safety matters,¹⁵³ and in a case involving a recruitment company, client

147 See *Air New Zealand Ltd v Kerr* [2013] ERNZ 581 at [44] where Ford J suggested (contrary to the Court of Appeal in *Faccenda*) that New Zealand courts would extend a non-compete clause to protect information falling in Goulding J's second category (citing *Broadcasting Corporation of New Zealand v Nielsen* (1988) 2 NZELC 96, 040).

148 Anderson and Hughes, above n 112, at 245.

149 *Ravensdown Corp Ltd v Groves* [1998] 3 ERNZ 947 at 957. See also *Allco Agencies Auckland Ltd v Naidoo* [1988] 2 NZELC 95,923.

150 *AM Satterthwaite & Co Ltd v Gay* (1987) 1 NZELC 95,356 at 95,361 (interim injunction).

151 *Korbond Industries v Jenkins* [1992] 1 ERNZ 1141 at 1158 (interim injunction - though not "strongly arguable").

152 *Predict (New Zealand) Ltd v Morgan (No.3)* [1993] 2 ERNZ 1034 at 1047. Information relating to the employer's supplier was not confidential, at 1048.

153 *Bradford Trust Limited v Roebeck* (2006) 4 NZELR 635 (interim injunction).

information relating to prospective employers and employees.¹⁵⁴ Tempering the weight to be given to the apparent broad approach in these cases is the fact that many of the cases were applications for interim injunctions. This meant the employer only had to establish a seriously arguable case on the merits.

Turning to the question of what kind of information justifies a non-compete clause, New Zealand employment law jurisprudence appears to have also taken a broad approach. In *Air New Zealand Ltd v Kerr* Ford J suggested (contrary to the Court of Appeal in *Faccenda Chicken*) that New Zealand courts would extend a non-compete clause to protect information falling in Goulding J's second category – that is information that is not equivalent to a trade secret but is confidential.¹⁵⁵ Ford J cited *Broadcasting Corporation of New Zealand v Nielsen*, where Hardie Boys J said that the term trade secrets should not be understood “sticto sensu”.¹⁵⁶ In that case, it was found that information about salaries, budgets, promotions and the radio station's attitudinal surveys was sufficiently confidential to justify a non-compete clause.¹⁵⁷ In other New Zealand employment cases, information relating to “advertising, future programming schedules and volume incentive discount agreements”;¹⁵⁸ plans and strategies,¹⁵⁹ and patterns and designs, costing, pricings and production levels, customer lists and information about customer relationships,¹⁶⁰ and strategies,¹⁶¹ has been held to justify a non-compete clause.

In contrast to the general trend of case law described above, in other cases it is possible to detect a restrictive approach in some employment disputes. For example, in *Circle Pacific Asparagus v Pryce*, at issue was a potential breach of a former manager and supervisor's implied term of confidentiality.¹⁶² The confidential information identified by the plaintiff was: identity of clients; commercial requirements of existing clients; price; terms of trade; plaintiff's cost structure including computer spreadsheets; contents of parts of an operational diary used by the defendant during employment with the plaintiff; and the processes necessary to sell packaged lettuce. After referring to *Faccenda Chicken*, Goddard CJ found most of the information was learned know-how that was not entitled to protection as something in the nature of a trade secret.¹⁶³

154 *Associated Personnel Consultants Ltd v Hill & Ascot Associates Ltd* HC Auckland CP 902/87 21 July 1987 (interim injunction).

155 *Air New Zealand Ltd v Kerr* [2013] ERNZ 581 at [44].

156 *Broadcasting Corporation of New Zealand v Nielsen* (1988) 2 NZELC 96, 040 at 96, 049.

157 *Broadcasting Corporation of New Zealand v Nielsen* (1988) 2 NZELC 96, 040.

158 *TVNZ v Bradley* EmpC Auckland AEC14/95, 10 March 1995.

159 *Dillon v Chep Handling Systems Ltd* [1995] 2 ERNZ 282 at 301, but the scope of such a non-compete clause was held to be too wide to be enforceable.

160 *Force Four New Zealand Ltd v Curtling* [1994] 1 ERNZ 542 at 553, but the scope of the non-compete clause was considered unreasonable and unenforceable.

161 *Transpacific Industries v Harris* [2013] ERNZ 267 at [55], but the clause at issue as a whole was considered unenforceable (at [71]). See also *Allright v Canon New Zealand Ltd* (2008) 6 NZELR 367 at [18].

162 *Circle Pacific Asparagus Ltd v Pryce* EmpC Auckland WEC 4295, 30 June 1995.

163 At 26.

At the root of these differing approaches are different philosophies as to where the balance should be struck between protecting an employer's interests and promoting employee freedom.¹⁶⁴ *Faccenda Chicken* can be seen as an attempt to achieve this balance by differentiating between highly confidential information akin to a trade secret and other information that may be confidential during employment. The authors of Gurry's Breach of Confidence suggest "there is much to be said" for the distinction in *Faccenda Chicken*.¹⁶⁵ They acknowledge the potential for difficulties in practice created by the Court of Appeal's terminology in *Faccenda Chicken*. Nevertheless, they identify that a broad duty of confidentiality imposed post-employment could affect employee mobility and, in turn, innovation.¹⁶⁶ The public interest in innovation and growth may support the "tenor of the Court of Appeal's intervention in *Faccenda Chicken*".¹⁶⁷ They express concern with "attempts to water the *Faccenda* test down" in such a way that any confidential information "is protected by way of the implied term".¹⁶⁸ By contrast, the authors of a leading New Zealand employment text suggest that the terminology used by the Court of Appeal in *Faccenda Chicken* was "regrettable", and "for all practical purposes" the terms confidential information and trade secrets are (and should be treated) as "synonymous".¹⁶⁹ Such an approach may imply that the good faith notions of the breach of confidence action should feature more prominently in employment disputes.

Whatever side one falls on these normative positions, currently there is uncertainty in New Zealand employment law jurisprudence. The term trade secrets is held up as a touchstone to help differentiate between what can be protected post-employment and what cannot. However, the way trade secrets has been utilised to fit different factual situations means the term has been stretched. Its boundaries are fuzzy and it is hard to determine precisely what a trade secret means. The overall ambiguity this creates across the whole legal landscape is amplified by the use of the term trade secret under New Zealand statutory law, which I look at next.

164 See *Walden v Barrance* [1996] 2 ERNZ 596 at 615.

165 Aplin and Gurry, above n 36, at [12.178].

166 At [12.178] citing *University of Western Australia v Gray* (2009) 179 FCR 346 at [164] "...the duty of confidence can pose a significant obstacle to the mobility of employees engaged in research-related employment having applications in science or technology".

167 At [12.178].

168 At [12.178].

169 Anderson and Hughes, above n 112, at 245. The authors though do concede the "issue is not entirely clear cut", at 246. See also Stewart, above n 117.

V. STATUTORY LAW IN NEW ZEALAND

A. *The Use of Trade Secrets in the Statute Book*

The fact that there is no trade secret legislation does not mean that the term trade secrets is absent from the statute books. My research has shown the term trade secret is found in 25 statutes. Some of these statutes include trade secrets in the definition of intellectual property.¹⁷⁰ Other statutes include trade secrets as a subset of confidential information.¹⁷¹ In most instances, the term trade secret is not defined.

A substantial number of statutes use the term trade secrets in the context of an authority or organisation withholding information.¹⁷² Two examples are particularly relevant for those engaged in business and both examples demonstrate ambiguities with the term trade secret. First, the Privacy Act 1993 provides grounds for an “agency” holding personal information to refuse to disclose such information when an individual requests it.¹⁷³ Section 28 permits an agency to refuse disclosure “where the making available of the information would disclose a trade secret”.¹⁷⁴

The Privacy Act 1993 does not define trade secret. However, some guidance as to the meaning of the term is purported to be provided by a published case note of the Privacy Commissioner.¹⁷⁵ The Commissioner noted that the common law did not provide much assistance as to the meaning of a trade secret. Drawing on an Australian case,¹⁷⁶ the Commissioner observed mere labelling information a trade secret does not make it so. The Commissioner noted “whether information is or is not a trade secret has to be determined objectively on the facts and circumstances of each case”.¹⁷⁷

In the course of the case note, the Privacy Commissioner referred to his review of the Privacy Act in 1998, where the difficulties in ascertaining a meaning of the term trade secret had been noted.¹⁷⁸ Although questioning the retention of s 28, the review recommended that, in the interests of clarity, it

170 Public Works Act 1981, s 2. Ministry of Agriculture and Fisheries (Restructuring) Act 1995, s 2.

171 Agricultural Compounds and Veterinary Medicines Act 1997, s 72.

172 Examples include, Resource Management Act 1991, s 42 and the Fisheries Act 1996, s 121(2) (b).

173 Privacy Act 1993, s 6 (Principle 6).

174 Privacy Act 1993, s 28.

175 Case Note 36631 [2003] NZPrivCmr 14 - Bank refuses couple access to file claiming trade secret (July 2003).

176 *Wright v Gasweld Pty Ltd* (1991) NSWLR 317.

177 Case Note 36631 [2003] NZPrivCmr 14 - Bank refuses couple access to file claiming trade secret (July 2003).

178 Office of the Privacy Commissioner *Necessary and Desirable: Privacy Act 1993 Review* (December 1998) at 154.

could be desirable to adopt a definition of trade secret (and suggested using a definition similar to one used in Canadian statutes).¹⁷⁹

A second example is provided by the Official Information Act 1982 (OIA). Under s 9(2)(b), "official information" held by a Government agency can be withheld from disclosure if that information would disclose a trade secret *or* the disclosure of the information would unreasonably prejudice the commercial position of a person or body. The term trade secret is not defined in the OIA and this lack of definition has prompted some speculation as to the scope to be given to s 9(2)(b). For example, Eagles et al trace the origin of the trade secret exception to trade secret law in the United States.¹⁸⁰ The authors suggest that there could be narrow and broad conceptions of trade secrets under United States law.¹⁸¹ This in turn could affect how s 9(2)(b) is applied. If information is a trade secret, then it could be withheld without anything more. If it is not, then it will be necessary to consider the harm to business interests and the reasonableness of the prejudice occasioned by disclosure.¹⁸²

The Office of Ombudsman has in the past identified that "there have been difficulties in defining the term 'a trade secret'".¹⁸³ The current Practice Guidelines,¹⁸⁴ go on to suggest that an agency might consider the criteria laid down in the Australian case of *Ansell Rubber Co v Allied Rubber Industries Pty Ltd* where it was said that some factors that could be used to determine whether information is a trade secret include:¹⁸⁵

... (1) the extent to which the information is known outside of his business; (2) the extent to which it is known by employees and others involved in his business; (3) the extent of measures taken by him to guard the secrecy of the information; (4) the value of the information to him and to his contemporaries; (5) the amount of effort or money expended by him in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.

179 At 155, citing the Freedom of Information and Protection of Privacy Act 1993 (Nova Scotia), s 3; Freedom of Information and Protection of Privacy Act 1992 (British Columbia), Schedule 1; Freedom of Information and Protection of Privacy Act (Alberta), s 1.

180 Eagles, Taggart and Liddell, above n 96, at 294.

181 At 294-295. The authors do not make reference to the UTSA, but refer to the Restatement of Torts § 757 and a 1925 case, *United States ex rel Norwegian Nitrogen Products Co Inc v United States Tariff Commission* 6 F 2d 491 at 495 (DC Cir 1925).

182 At 297.

183 See New Zealand Law Commission, *Review of the Official Information Act 1982* (NZLC R40, Wellington 1997) <www.lawcom.govt.nz> Appendix F, at 173 (appending the Office of the Ombudsman "Practice Guidelines No 3").

184 Office of the Ombudsman "Practice Guidelines Part 2C Other reasons for refusing official information – Commercial" at 5-6.

185 *Ansell Rubber Co v Allied Rubber Industries Pty Ltd* [1967] VR 37 at 50.

In 2012 the Law Commission conducted a full scale review of the OIA.¹⁸⁶ Although it doubted there was a strong case for amending s 9(2), the Law Commission stated that “perhaps the strongest case of legislative attention is a possible definition of ‘trade secret’”.¹⁸⁷ The Law Commission also noted that it would “be difficult to capture the concept in a brief form of words”.¹⁸⁸ It did, though, suggest that the Crimes Act 1961 definition “might be a possibility”.¹⁸⁹

B. *The Crimes Act 1961*

Section 230(1) criminalises the unlawful taking or copying of a trade secret for a pecuniary advantage, or with intent to cause a loss for any person.¹⁹⁰ Section 230(2) of the Crimes Act 1961 defines a trade secret as:

- (2) For the purposes of this section, **trade secret** means any information that—
- (a) is, or has the potential to be, used industrially or commercially; and
 - (b) is not generally available in industrial or commercial use; and
 - (c) has economic value or potential economic value to the possessor of the information; and
 - (d) is the subject of all reasonable efforts to preserve its secrecy.

The definition of trade secret in the Crimes Act 1961 adopts the core components suggested by Hammond in his involvement in Canadian law reform and mentioned in *Dymocks Franchise Systems (NSW) Pty Ltd v Bilgola Enterprises Ltd*.¹⁹¹ It is also similar in content and form to the definition of trade secret under the UTSA.

Further clarity on the precise scope of the definition of trade secret under the Crimes Act 1961 has not been forthcoming. There have been no criminal prosecutions under section 230 and the section has received little judicial

186 New Zealand Law Commission “The Public’s Right to Know: Review of the Official Information Legislation” (NZLC R125, Wellington, June 2012) <lawcom.govt.nz>.

187 At [5.61].

188 At [5.61].

189 At [5.61].

190 Section 230 was inserted into the Crimes Act by the Crimes Amendment Act 2003, which came into force on 1 October 2003.

191 See Anna Kingsbury “Trade Secret Crime in New Zealand Law: What was the Problem and is Criminalisation the Solution?” (2015) 37(3) EIPR 147 where Kingsbury sets out the legislative history to the insertion of section 230 into the Crimes Act via the 2003 amendment.

attention.¹⁹² One commentator, though, has suggested that the definition could be a "useful summary for the civil (commercial) context".¹⁹³ However, to date, there has been no explicit mention of the Crimes Act definition in cases involving the breach of confidence action and the conceptual problem with such a suggestion is that, as I have demonstrated, whether information is a trade secret does not have a central role in commercial breach of confidence actions.

The definition of trade secret in the Crimes Act 1961 has been incorporated into the Criminal Disclosures Act 2008. Certainly, some consideration may be given to whether the statute law should adopt a uniform meaning to the term trade secret. The Crimes Act definition of trade secret could also perhaps be applicable to the employment context. There are similarities between the Crimes Act definition and the observations made in *Ansell Rubber Co v Allied Rubber Industries Pty Ltd* about how the meaning of a trade secret could be determined. However, to date, there have been no indications of employment law adjudicators using the Crimes Act definition as guidance.

VI. IMPLICATIONS OF A LACK OF SETTLED AND UNIFORM MEETING

A. *The Dangers of Ambiguity*

As Sections III, IV and V have indicated there is no clear meaning of trade secret under New Zealand law. There is a clear definition of trade secret in the Crimes Act, but this is not applicable to civil law proceedings. Compared to other intellectual property rights, with statutorily defined meanings,¹⁹⁴ the position with trade secrets may appear odd. The definitional vacuum of trade secret may appear ripe to be filled.

Yet, along with trade secrets there are other examples of terms that are used in business transactions and arrangements that lack a settled legal meaning. An example is the term "joint venture".¹⁹⁵ Appellant courts in both New Zealand and Australia have been at pains to point out that the term joint venture does not have a clear common law meaning.¹⁹⁶ Yet, this lack of settled meaning has not prevented the New Zealand business world from "embracing" the term joint venture to describe a business arrangement

192 See above at 151 to 152. In *SGS NZ Ltd v Nortel (1998) Ltd* High Court Whangarei CIV-2006-488-384, 20 December 2007 s 230 was briefly raised in the context of a claim for conspiracy.

193 Paul Sumpter *Intellectual Property Law: Principles in Practice* (2nd ed, CCH NZ Ltd, Auckland) at 347.

194 See for example, Trade Marks Act 2002, s 5 (definition of trade mark).

195 *Chirnside v Fay* [2007] 1 NZLR 433 (SC) at [52] per Gault J: "The term 'joint venture' can cover many forms of arrangement".

196 *United Dominions Corporation Ltd v Brian Pty Ltd* (1985) 157 CLR 1 at 10, *Chirnside v Fay* [2004] 3 NZLR 637 (CA) at [42].

between parties not intended to be a partnership.¹⁹⁷ Like trade secrets, the term joint venture also features in the statute books.¹⁹⁸

Ambiguity, though, can create problems. For example, although the use of the term joint venture may be widespread in the business world, it has been recognised that there has not been concomitant thinking about what the term joint venture actually means.¹⁹⁹ In *Paper Reclaim Ltd v Aotearoa International Ltd*, the Supreme Court suggested labelling a relationship as a joint venture “may be apt to distract” and should be used with caution.²⁰⁰ This is because labelling an arrangement a joint venture does not provide any substantive indications of the parties’ individual rights and obligations.²⁰¹ Similar ambiguities arise with the term “trade secrets”. If we call certain information a trade secret, the potential different meanings “trade secrets” could take in different contexts means such a label is not reliable shorthand to convey what is truly meant.

The natural retort is that this ambiguity does not substantially matter. Like business arrangements coined “joint ventures”,²⁰² the substance of the information should matter, rather than how it is labelled.²⁰³ Arguably, in a breach of confidence action before the civil courts whether information is a trade secret is of less moment. Context will dictate the true substance of information and whether information is protectable. Similarly, in the employment sphere, it could be argued that we should be confident that a judge knows when information is “highly confidential” and protectable post-employment when he or she sees it.²⁰⁴

Even if it is accepted that a lack of meaning to the term trade secret may not impede appropriate judgments being made ex-post, there is a sense that ambiguity can confuse those trying to plan actions and make decisions ex-ante. For example, a public agency may be unsure whether to disclose information or not under the OIA depending on a narrow or broad view of what constitutes a trade secret. Similarly, employees, employers and their advisers may be uncertain as to what a former employee is able to do depending on the scope given to the term trade secret.²⁰⁵

197 *Commerce Commission v Fletcher Challenge Ltd* [1989] 2 NZLR 554 (HC) at 615.

198 In the Commerce Act 1986, s 31 joint venture is defined. See also Companies Act 1993, s 131(4).

199 *Commerce Commission v Fletcher Challenge Ltd* [1989] 2 NZLR 554 (HC) at 615.

200 *Paper Reclaim Ltd v Aotearoa International Ltd* [2007] 3 NZLR 169 (SC) at [31].

201 *White City Tennis Club Ltd v John Alexander's Clubs Pty Ltd* (2009) 261 ALR 86 (NSWCA) at [27].

202 In cases involving joint ventures the courts have been prepared to look past the labels used by parties to describe their relationship. See, for example, *United Dominions Corporation Ltd v Brian Pty Ltd* (1985) 157 CLR 1.

203 See Anderson and Hughes, above n 112, at 250 citing *Manchester Cleaning Co Ltd v Thomas HC Auckland* CP564/86, 18 June 1986. See generally Aplin and Gurry, above n 36, at [5.78].

204 Echoing the famous characterization of pornography by Supreme Court Justice Potter Stewart in *Jacobellis v Ohio* (1964) 378 US 184 at 197: “I know it when I see it”.

205 Aplin and Gurry, above n 36, at [12.175].

The potential for ambiguity can be enhanced when written agreements, drafted by non-specialists, contain the term trade secret. The danger of ambiguity is captured by the observations in the English case of *Oxonica Energy Ltd v Neuftec Ltd*.²⁰⁶

... we quite often come across agreements that concern specialised legal subjects – and intellectual property licences fall into that category – which have been drafted by non-specialists. We can tell this from the way that technical expressions have been employed in the document. Sometimes those documents contain crucial ambiguities, not so much because of the misuse of the technical expressions, but because the draftsman had not enough understanding of the subject-matter to beware of the ambiguities that ought to be avoided.

In that case the dispute centred on the meaning of the phrase "Licensed Products" which was defined to mean products or processes "falling within the scope of claims in the Licensed Application or Licensed Patent". Interpretation of this phrase was not clear because the agreements contained a number of "malapropisms", and terms that referred to United States patent law, but were irrelevant in terms of United Kingdom patent law.²⁰⁷

In situations like those presented in *Oxonica Energy Ltd v Neuftec Ltd*, the misuse of technical patent law terms may be mitigated by greater understanding of the subject matter and the avoidance of simply "cutting and pasting" from precedent documents, based on United States law. For the term trade secrets, though, it is hard to envisage ambiguity being completely resolved when a lack of settled common law meaning exists for the term.

B. The Push for Legislative Crystallisation

Considering the observations above, a compelling argument could be made for statutory intervention in the field of trade secrets to provide greater certainty as to the scope of what is legally protected as a trade secret. Such an idea has been floated in Canada.²⁰⁸ In Canada, with the exception of Quebec, the protection of trade secrets is provided by the common law breach of confidence action.²⁰⁹ In 1986, the Institute of Law Research and Reform suggested the enactment of a new Trade Secrets Protection Act to create two new statutory torts involving trade secrets. It was proposed that this legislation would adopt a "functional definition" of trade secret along the

206 *Oxonica Energy Ltd v Neuftec Ltd* [2008] EWHC 2127 (Pat) cited in Lewison, above n 28, at 236-7.

207 At [64]-[70].

208 Institute of Law Research and Reform, above n 101.

209 See generally Elizabeth A Rowe and Sharon K Sandeen *Trade Secrecy and International Transactions: Law and Practice* (Edward Elgar, Cheltenham, UK, 2015) at 181-182.

lines of the definition of trade secret in the UTSA.²¹⁰ In the proposal, whether information met the definition of a “trade secret” would be a gatekeeper to the statutory actions.

Grant Hammond was a Director of the Institute of Law Research and Reform and as explained above, in his capacity as a High Court judge he has drawn on this report to suggest greater clarity for the term trade secret. In *Hunt v A*, as a Court of Appeal judge, Hammond J reiterated that orthodox position that the breach of confidence action is “a broad and flexible one”.²¹¹ Hammond J went on to observe that if trade secrets needed “a more distinct kind of protection, then this could be done by statute”.²¹² He cited United States law and the Canadian proposals as potential sources of inspiration.

The push for crystallisation is a common theme in property law. Some economists examining the emergence of property have argued that as the value of a thing or resource increases it becomes more desirable to have sharply defined rules governing acquisition and use. This enables easier transacting and allows owners to “internalise” or capture the benefits of a resource.²¹³ Information, whether called trade secrets or not, is not considered property under New Zealand law.²¹⁴ However, trade secrets are becoming, or are perceived as becoming, more valuable. For example, it has been estimated that trade secrets could comprise 70 per cent of the value of a company’s intellectual assets.²¹⁵

The European Trade Secrets Directive (Directive) illustrates this push for crystallisation in light of the increased value and importance of trade secrets. The introduction of the Directive was premised on the idea that trade secrets are valued by businesses, and particularly by small and medium sized enterprises.²¹⁶ The Directive provides a homogenous definition of a trade secret across member states. The definition is identical to that used in the TRIPs agreement and which in turn took inspiration from the definition of trade

210 Institute of Law Research and Reform, above n 101, at 12.

211 *Hunt v A* [2007] NZCA 332 at [91].

212 At [91].

213 Harold Demsetz “Toward a Theory of Property Rights” (1967) 57 Am Econ Rev 347.

214 *Hunt v A* [2007] NZCA 33 at [90]. See also *Dixon v R* [2014] 3 NZLR 504 (CA) at [27] and *Dixon v R* [2015] NZSC 147 at [23]-[24].

215 Jennifer Brant and Sebastian Lohse *Trade Secrets: Tools for Innovation and Collaboration* (International Chamber of Commerce Innovation and Intellectual Property Research Paper No. 3, September 2014) at 11 citing RC Bird and SC Jain *The Global Challenge of Intellectual Property Rights* (Elgar Publishing, Cheltenham 2008); Forrester Consulting *The Value Of Corporate Secrets: How Compliance And Collaboration Affect Enterprise Perceptions Of Risk* (Forrester Consulting Thought Leadership Paper, 2010); and RS Schwartz RS and MD Weil *United States Law on Restrictive Covenants and Trade Secrets* (American Law Institute - American Bar Association Continuing Legal Education ST001, 2291, 2010).

216 Baker McKenzie *Study on Trade Secrets and Confidential Business Information in the Internal Market* (MARKT/2011/128/D 2013).

secret in the UTSA.²¹⁷ The introduction of this uniform definition responds to the concern that differing national approaches to the scope of protection could result in divergent interpretations of what is protectable.²¹⁸ It was suggested that businesses, along with their employees, business collaborators and competitors "would benefit from improved knowledge and certainty of what would be legally considered as trade secrets within the EU".²¹⁹

Given the varied and inconsistent way in which trade secrets is used under New Zealand law, improved certainty and knowledge about what is protected by the law could be seen as an attractive prospect. As with the proposal in Canada, one could envisage a uniform definition of trade secret being implemented under the auspices of a new statutory trade secret misappropriation tort. Rather than considering the substance and form of such a statutory intervention and mounting a normative case for New Zealand to follow such a path, I make two important observations about any proposals for statutory crystallisation.

First, the interplay between increased certainty and ambiguity is part of the fabric of the law in many areas. Carol Rose has made this observation in respect of property law generally.²²⁰ As indicated above, when things begin to become more valuable there is a tendency to implement clear rules regarding their ownership. However, such clear rules can result in the system being abused, which can create dramatic injustices. Faced with such injustice, the judiciary tend to muddy up the rules. This, in turn, prompts the legislature to try and implement new rules, and so the process continues.²²¹ Any definition of trade secret could create interpretation tensions between mud and crystal. Trade secret holders may push the law into areas that harm competition. Competitors may expose holes in the definition of trade secret that may appear unjust. For example, as Aplin has queried, does the definition of trade secret under the Directive cover private commercial information, such as information that relates to divorce proceedings, even though it may not relate to a business per se?²²² Does the definition of trade secret foreclose the application of the springboard doctrine? Recall this doctrine responds to situations whereby a defendant gains a head-start by receiving confidential information, but at the time of any claim the information is no longer "not ... generally known among or readily accessible to persons within the circles

217 See Tanya Aplin "A Critical Evaluation of the Proposed EU Trade Secrets Directive" [2014] 4 IPQ 257 at 261 referring to Sharon K Sandeen "The Limits of Trade Secret Law: Article 39 of the TRIPS Agreement and the Uniform Trade Secrets Act On Which It is Based" in R C Dreyfuss and K J Strandburg (eds) *The Law and Theory of Trade Secrecy: A Handbook of Contemporary Research* (Edward Elgar, Cheltenham, 2011) 537 at 554-557.

218 European Commission *Commission Staff Working Document Impact Assessment SWD (2013) 471 final* (Issued 28 November 2013) at 20-21.

219 At 7.

220 Carol Rose "Crystals and Mud in Property Law" (1988) 40 Stanford Law Rev 577.

221 At 604.

222 Aplin above n 217, at 263, referring to *Tchenguiz v Imerman* [2010] EWCA Civ 908, [2011] 2 WLR 592.

that normally deal with the kind of information in question”²²³ (and thus, no longer a trade secret)? Does the definition of trade secret capture information that certain processes or methods do not work?²²⁴ The protectability of this information, known as “negative know-how”, was problematic under United States law prior to the UTSA.²²⁵

The advantage of New Zealand’s current reliance on the breach of confidence action is that it is broad and flexible.²²⁶ Part of this flexibility means that there is inherent ambiguity in what can be protected. Yet, this degree of ambiguity may in fact enable judges to better craft fair and equitable solutions in a wider range of circumstances. Rose has observed that the “rhetoric” of crystal rules may be underpinned by our perceived ability to use a “perfect language” to clearly define entitlements, rules and duties.²²⁷ That is, a language that is able to capture “in the present all future contingencies”.²²⁸ Given the inherent difficulties in considering what type of information could be commercially valuable both now and in the future - perhaps it could be unwise to attempt to statutorily crystallise a definition of the term trade secret.

Second, although statutory intervention is a popular suggestion by academics and judges, it may not be the best way forward for those who actually have to deal with commercial information. Business people need to operate in the here and now and passing legislation takes time. Of course, crystallisation occurs not just through statutory intervention, but also through private ordering. As Rose notes, when legal rules become muddy, “private bargainers” can try and crystallise rules.²²⁹ For example, in the field of personal property, this could be through contractual provisions that declare a car is being sold on an “as is” basis.²³⁰

It is this last observation that may give us a clue as to an alternative way to navigate through the inherent ambiguity of the term trade secret. One may be prepared to accept that it is desirable that the term trade secret is left “muddy” at an ex-post stage. However, at the same time one may recognise that it may be advantageous that, ex-ante, business people wrest back greater clarity.

In Section II of this article, I outlined the various ways in which the terms trade secrets, know-how and confidential information are used in commercial arrangements and relationships. Ex-post courts attempt to interpret contracts by trying to ascertain what meaning the parties intended a word or term to mean.²³¹ This is done on an objective basis.²³² That is to say, commercial

223 EU Trade Secrets Directive, above n 2, Art 2 (definition of trade secret).

224 Also noted by Aplin, above n 217, at 261.

225 Arguably negative know-how fell outside the definition of “trade secret” in the Restatement (First) of Torts in 1937 see Uniform Trade Secrets Act 1979 (with 1985 amendments), comment 5.

226 *Hunt v A* [2007] NZCA 33 at [91].

227 Rose, above n 220, at 605.

228 At 605.

229 At 582.

230 At 582.

231 *Vector Gas Ltd v Bay of Plenty Energy Ltd* [2010] 2 NZLR 444 (CA) at [19].

232 At [19]

contracts, including employment agreements,²³³ are interpreted on the basis of "what a reasonable and properly informed third party would consider the parties intended the words of their contract to mean".²³⁴ The commercial or other context is relevant. The subjective intentions of the parties are not. Contract drafters, though, have a degree of control in preventing unfavourable or unforeseen interpretations. Where words have an apparently plain and unambiguous meaning, it will be difficult to displace such a meaning ex-post.

As we have seen, trade secret does not have a clear meaning under New Zealand law. Business people should be wary of using (or copying and pasting) a term like trade secret as a shortcut. In particular, they should avoid the unthinking use of precedents that proliferate on the Internet – many of which may be based on United States law and use the term trade secret. Instead, businesses and their advisers should spell out precisely what they consider to be confidential. That is to say, where possible, agreements should point to the existence of specific information as having the necessary quality of confidence. The examples in Section II suggest in some cases there may be room for improvement in commercial practice. However, there are also good examples of this in practice. For example, in *Stewart v Franmara Inc*, at issue was a confidentiality agreement which defined "confidential information" as [sic]:²³⁵

Information, data and know-how, whether technical or non-technical, which is or has already been disclosed to the Recipient, and which relates to the Invention or to the research, development of business activities of the 'inventor', which is either marked or stated to be confidential, or is by its nature reasonably intended to be confidential.

Of course, ex-post courts may carefully scrutinise the substance of the information claimed to be confidential. Further, sometimes it may not be possible to enumerate what is confidential in light of all future contingencies. However, by carefully considering what is intended to be confidential, there is a greater prospect of reducing uncertainty and confusion.

VII. CONCLUSION

The term trade secret is commonly used to describe a business's secret commercial information. Despite its ubiquity, in this article I have demonstrated that there is ambiguity with the use of the term trade secrets as a matter of law. Unlike the United States which has effectively codified civil trade secret protection and provides a definition of a trade secret, no such

233 See for example, *Silver Fern Farms v New Zealand Meat Workers and Related Trade Union Inc* [2010] ERNZ 317.

234 *Vector Gas Ltd v Bay of Plenty Energy Ltd* [2010] 2 NZLR 444 (CA) at [19].

235 *Stewart v Franmara Inc* [2012] NZHC 548 at [18].

statutory codification of trade secrets exists in New Zealand. Statutes refer to trade secrets and the Crimes Act 1961 provides a definition of a trade secret. However, the legal protection of trade secrets in the *civil law* is a product of judge made law. In civil proceedings the protection of trade secrets is based on the breach of confidence action. In this action, whether something is a trade secret is not strictly relevant and trade secret is not a legal term of art. Rather, the law is only interested in whether information *of any sort* has the necessary quality of confidence. Complicating matters in employment cases, adjudicators do use the term trade secret to judge the legitimacy of an ex-employee's actions post-employment. In employment jurisprudence, trade secrets have been identified as a category of highly confidential information afforded protection in contrast to information deemed "merely confidential". However, what precisely amounts to a trade secret is unclear. It is difficult to extrapolate clear boundaries to this category, which creates ambiguity.

Ambiguity can create uncertainty and can be seen as the enemy of efficient business planning and enterprise. In light of the term trade secret not having a clear meaning, a natural academic impulse is to suggest statutory reform and the creation of a clear statutory definition of trade secret. Although I recognise the benefits of certainty, I am currently agnostic about statutory intervention. I have suggested that there may be some merit in leaving the term trade secret as a "loose" one which can be interpreted and applied ex-post by judges to ensure justice is achieved on a case by case basis. Ex-ante, greater crystallisation may be achieved by businesses and their advisers retreating from use of trade secret as a shorthand, and more carefully and specifically identifying what information is truly confidential.